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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2020/2021

### **DEC5614 – INTRODUCTORY MICROECONOMICS**

(All sections/Groups)

23 OCTOBER 2020

9.00 AM – 11.00 AM

(2 Hours)

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### **INSTRUCTIONS TO STUDENT**

1. This question paper consists of 11 pages with 2 sections.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.

**SECTION A: Multiple Choice Questions (30 Marks)**

1. All economic questions arise because we \_\_\_\_\_.
  - A. want more than we can get
  - B. want more than we need
  - C. have an abundance of resources
  - D. have limited wants that need to be satisfied
  
2. The study of the choices made by individuals is part of the definition of \_\_\_\_\_.
  - A. microeconomics
  - B. positive economics
  - C. macroeconomics
  - D. normative economics
  
3. Which of the following is a macroeconomic topic?
  - A. The reasons for a rise in the price of fresh milk.
  - B. The reasons for the rise in average prices.
  - C. Why managers earn more than executives.
  - D. Whether the police should buy more revolvers or more machine gun.
  
4. When an economy produces more houses and fewer typewriters, it is answering the \_\_\_\_\_ question.
  - A. "what"
  - B. "how"
  - C. "where"
  - D. "for whom"
  
5. Which of the following is **NOT** a factor of production?
  - A. The water used to cool a strawberry garden.
  - B. The effort of farmers raising sheep.
  - C. The salaries paid to employees.
  - D. The marketing skill of a start-up business owner.
  
6. Opportunity cost is **BEST** defined as \_\_\_\_\_.
  - A. how much money is paid for something
  - B. how much money and time it takes to consume something
  - C. the value of the next best alternative that is given up in making a choice
  - D. the total of all other alternatives that are given up in making a choice

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**Continued ...**

7. The production possibilities frontier \_\_\_\_\_.

- A. depicts the boundary between those combinations of goods and services that can be produced and those that cannot given resources and the current state of technology
- B. shows how many goods and services are consumed by each person in a country
- C. is a model that assumes there is no scarcity and no opportunity cost
- D. is a graph with price on the vertical axis and income on the horizontal axis

8. Jordan produces 2 pizzas and 4 colas an hour. Jordan could produce more pizzas but to do so he must produce fewer colas. Jordan is \_\_\_\_\_ his production possibilities frontier.

- A. moving along
- B. producing on
- C. producing outside
- D. producing inside

9. Which of the following statements regarding the production possibilities frontier is **TRUE**?

- A. Points outside the frontier are attainable.
- B. Points inside the frontier are attainable.
- C. Points on the frontier are less efficient than points inside the frontier.
- D. None of the above.

10. Production efficiency can be defined as \_\_\_\_\_.

- A. producing outside the production possibilities frontier
- B. minimising opportunity cost
- C. being able to produce more of one good only if less of another is produced
- D. providing for the immediate needs of the greatest proportion of the population

11. The quantity demanded is \_\_\_\_\_.

- A. always equal to the equilibrium quantity
- B. independent of the price of the good
- C. the amount of a good that consumers plan to purchase at a particular price
- D. independent of consumers' buying plans

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**Continued ...**

12. The "law of demand" states that, other thing remaining the same, the higher \_\_\_\_\_.

- A. the price of a good, the lower is the demand for this good
- B. consumers' incomes, the greater is the demand
- C. the price of a good, the higher is the quantity demanded
- D. the price of a good, the smaller is the quantity demanded

13. The negative slope of the demand curve indicates that there is \_\_\_\_\_ relationship between the price and the quantity demanded.

- A. a direct
- B. an inverse
- C. a positive
- D. no relationship

14. Each point on the demand curve reflects \_\_\_\_\_.

- A. all the wants of a given household
- B. the highest price consumers are willing and able to pay for that particular unit of a good
- C. the highest price sellers will accept for all units they are producing
- D. the lowest-cost technology available to produce a good

15. Which of the following pairs of goods are **MOST** likely substitutes?

- A. DVDs and DVD players.
- B. Cola and lemon lime soda.
- C. Lettuce and salad dressing.
- D. Peanut butter and gasoline.

16. Changes in which of the following shift the demand curve for dark chocolate?

- A. An increase in the price of the palm oil used to produce dark chocolate.
- B. An improvement in the productivity of dark chocolate-making machines.
- C. A fall in the price of strawberry a complement for dark chocolate.
- D. An increase in the number of dark chocolate outlets.

17. Which of the following is **NOT** one of the factors that influence the supply of a product?

- A. Technology.
- B. Income.
- C. Number of suppliers.
- D. Expected future prices.

**Continued ...**

18. Which of the following shifts the supply curve rightward?

- A. An increase in the population.
- B. A positive change in preferences for the good.
- C. A decrease in the price of the good.
- D. A decrease in the price of a factor of production used to produce the good.

19. Which of the following could result in a movement along, but **NOT** a shift of, the supply curve for shredded wheat breakfast cereal?

- A. A fall in the price of shredded wheat breakfast cereal.
- B. An increase in the cost of machinery used to shred wheat.
- C. Perfect weather conditions that resulted in a large wheat crop.
- D. All of the above.

20. As the price of a pound of cookies falls, the \_\_\_\_\_.

- A. supply of cookies increases
- B. supply of cookies decreases
- C. quantity of cookies supplied increases
- D. quantity of cookies supplied decreases

21. The price elasticity of demand measures \_\_\_\_\_.

- A. how often the price of a good changes
- B. the slope of a budget curve
- C. how sensitive the quantity demanded is to changes in demand
- D. the responsiveness of the quantity demanded to changes in price

22. If a rightward shift of the supply curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is \_\_\_\_\_.

- A. 0.30
- B. 0.60
- C. 0.83
- D. 1.20

23. If the price of a chocolate jar increases from RM0.75 to RM1 and as a result the quantity demanded of chocolate jar decreases from 10 to 9 per week, the elasticity of demand for the chocolate jar equals \_\_\_\_\_.

- A. 2.72
- B. 0.37
- C. 0.83
- D. 1.20

**Continued ...**

24. If the price elasticity of demand for clothing is 0.64, this implies that \_\_\_\_\_.

- A. a 6.4 percent increase in price the price of clothing leads to a 10 percent decrease in the quantity demanded
- B. a 10 percent increase in the price of clothing leads to a 6.4 percent decrease in the quantity demanded
- C. if there is an increase in the price of clothing the total expenditures on clothing decreases
- D. both answers A and C are correct

25.

	Price (dollars per bushel)	Quantity demanded (bushels)
A	10	0
B	8	4

Table 1

Table 1 above gives the demand schedule for peas. As you move from point A to point B, the price elasticity of demand equals \_\_\_\_\_.

- A. 0.11
- B. 0.50
- C. 0.22
- D. 9.00

26.

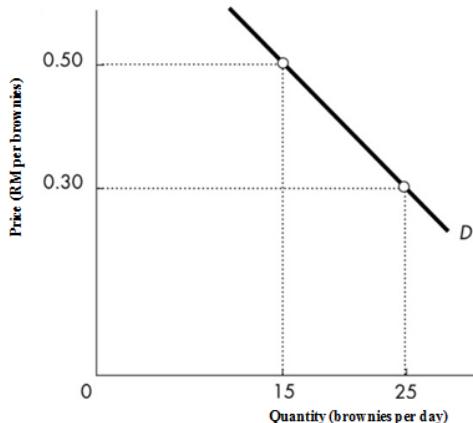


Figure 1

Figure 1 shows the demand curve for brownies. The price elasticity of demand when the price of a brownies increases from RM0.30 to RM0.50 is \_\_\_\_\_.

- A. 0
- B. 1
- C. 1/2
- D. 2

**Continued ...**

27. If demand is price elastic, \_\_\_\_\_.

- A. a 1 percent decrease in the price leads to an increase in the quantity demanded that exceeds 1 percent
- B. a 1 percent increase in the price leads to an increase in the quantity demanded that exceeds 1 percent
- C. a 1 percent decrease in the price leads to a decrease in the quantity demanded that is less than 1 percent
- D. the price is very sensitive to any shift of the supply curve

28. If the price elasticity is between 0 and 1, demand is \_\_\_\_\_.

- A. elastic
- B. inelastic
- C. unit elastic
- D. perfectly elastic

29.

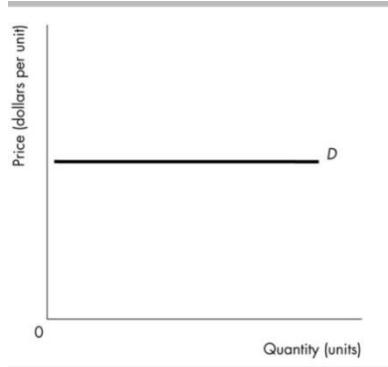


Figure 2

The demand curve in the figure 2 above illustrates a product whose demand has a price elasticity of demand equal to \_\_\_\_\_.

- A. zero at all prices
- B. infinity
- C. one at all prices
- D. a different amount at different prices

30. At the midpoint of a downward sloping straight-line demand curve, the demand \_\_\_\_\_.

- A. is elastic
- B. is unit elastic
- C. is inelastic
- D. has an elasticity exactly equal to zero

(Total: 30 marks)

**Continued ...**

## **SECTION B: Structured Questions (70 Marks)**

### **QUESTION 1**

(a) Remy has the total utility values given below for video rentals a week. Complete below table 2 by calculating his marginal utilities. (5 marks)

Quantity (rentals per week)	Total utility	Marginal utility
0	0	X
1	28	
3	54	
6	78	
10	100	
15	120	

Table 2

(b)

Quantity	Total utility	Quantity	Total utility
0	0	0	0
1	126	1	54.0
2	243	2	103.5
3	342	3	145.5
4	414	4	177.0
5	441	5	196.5

Brownies

Churros

Table 3

Table 3 above gives the total utility Jamal derives from the consumption of brownies and churros. Jamal has RM12 to spend on these two confectionery goods. The price of a brownie is RM3 and the price of churros is RM1.50. Jamal's budget is RM12. In order for Jamal to maximise his utility, how many brownies and churros should he buy? Explain the allocations. (5 marks)

(Total: 10 marks)

**Continued ...**

## **QUESTION 2**

Mr. Jagger opened a cafe in December 2018. He borrowed RM50,000 from a bank at an annual interest rate of 7 percent. In December 2019, the market value of his capital was left at RM40,000. Over the year, he rented a building for RM35,000 a year, paid RM10,000 for utilities, RM12,000 for raw materials and RM15,000 to his employees' salaries. If Mr. Jagger is not involved in the opening of the cafe, he would have been working as a sales assistant for RM18,000 a year.

- (a) Define economic depreciation. (1 mark)
- (b) Calculate the economic depreciation of Jagger's capital. (2 marks)
- (c) Calculate Jagger's total cost. (4.5 marks)
- (d) Given Jagger's total revenue of RM100,000, find his economic profit. Is he at profit or loss? (2.5 marks)

(Total: 10 marks)

## **QUESTION 3**

- (a) List **FOUR (4)** characteristics of a perfect competition. (4 marks)
- (b)

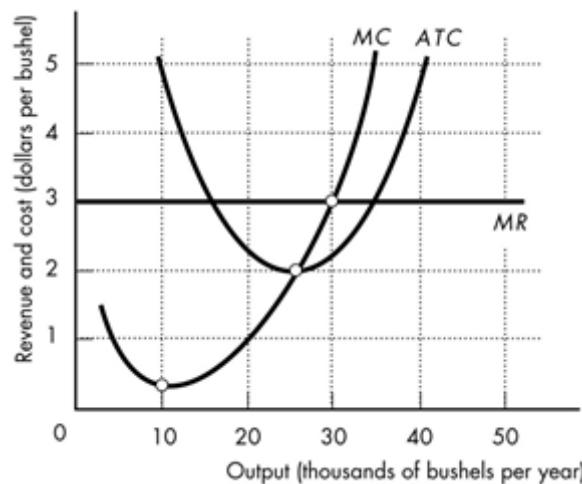


Figure 3

Figure 3 above illustrates a perfectly competitive wheat farmer.

**Continued ...**

(i) What will be the firm's profit-maximising/loss minimising price and output?  
(2 marks)

(ii) Briefly explain your answer at b (i).  
(2 marks)

(c)

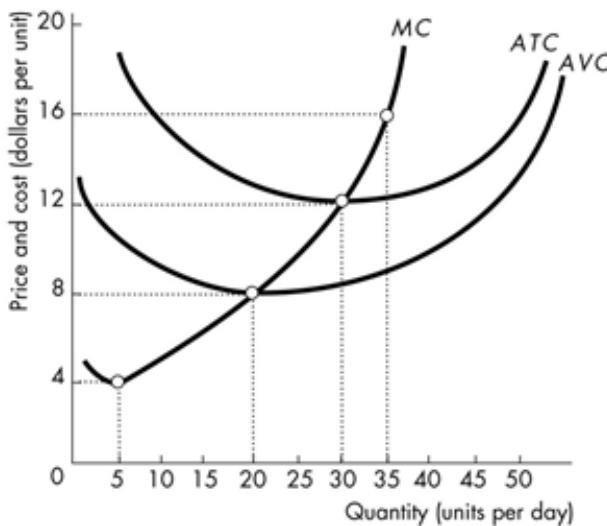


Figure 4

Figure 4 above illustrates a perfectly competitive wool farmer. What is the shutdown point price and quantity?  
(2 marks)

(Total: 10 marks)

#### **QUESTION 4**

(a) Define monopoly and give **ONE (1)** example of a monopoly company in Malaysia.  
(3 marks)

(b) State and explain the **TWO (2)** types of barriers to entry in a monopoly.  
(7 marks)

(Total: 10 marks)

**Continued ...**

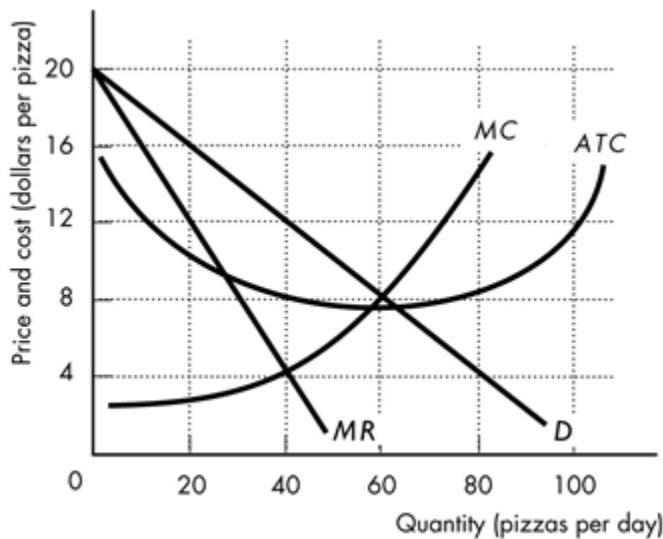
**QUESTION 5**

Figure 5

Figure 5 above represents Maya London's Pizza Parlor in a monopolistic competition. Answer below questions based on the above figure.

- (a) How many pizzas should Maya produce? Why? (2 mark)
- (b) What price per pizza will Maya charge her customers? Why? (2 marks)
- (c) What is Maya's total cost? Show your working. (2 marks)
- (d) What is Maya's total revenue? Show your working. (2 marks)
- (e) What is Maya's economic profit/loss? Show your working. (3 marks)

(Total: 11 marks)

**QUESTION 6**

- (a) Explain collusive agreement in an oligopoly market structure. (4 marks)
- (b) Explain collusive agreement strategies. (1 mark)
- (c) Explain the **FOUR (4)** possible combinations of actions for the firms that involve in the collusive agreement. (4 marks)

(Total: 9 marks)

**Continued ...**

**QUESTION 7**

(a)

Wage rate (ringgit per hour)	Quantity of labor supplied (hours per day)	Quantity of labor demanded (hours per day)
5	200	600
10	300	500
15	400	400
20	500	300
25	600	200

Table 4

Table 4 above gives information about the labor market in Prentice, a community in which the labor market is perfectly competitive.

(i) What is the equilibrium wage rate per hour? (1 mark)

(ii) What is the equilibrium quantity of labour demanded per day? (1 mark)

(iii) If the demand for labor decreases by 200 hours per day, what is the new equilibrium wage rate per hour and quantity of labor demanded per day? (2 marks)

(iv) If the price of the good increases and increases the value of marginal product of labor by RM10 an hour, what is the equilibrium wage rate per hour and the quantity of labor supplied per day? (2 marks)

(b) List the **FOUR (4)** factors of production. (4 marks)

(Total: 10 marks)

**End of Paper**